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DEPT FOR WHA DAS JACOBSON, MEX DIRECTOR LEE AND INR HOHMAN.

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SUBJECT: MEXICO: MICHOACAN FACES TRIFECTA OF ECONOMIC,
SECURITY AND MIGRATION PROBLEMS

REF: MEXICO 1947

MEXICO 00002749 001.2 OF 003

¶1. (SBU) Summary: Poloff traveled to Morelia, Michoacan August 18-21 to assess the political, economic, and security environment in the state with a number of officials from the major political parties, the state government, non-government organizations, and the academic world. Michoacan is emblematic of the dilemma facing many of the states in Mexico: institutional weaknesses, political infighting and a lack of fiscal stability hamper the state governments' ability to make headway on poverty, unemployment, and insecurity. Failure to foster a local environment with promising prospects for investment and employment feeds security and migration problems which in turn increases the state economy's reliance on remittances and encourages local corruption. Recent mid-term elections left Michoacan's political leaders unchanged, barely touched by a spat of recent corruption scandals that scarred the state's reputation (reftel) but left the local way of doing business largely unaffected. Greater cooperation among local officials and with the federal government will be crucial to realizing better success in meeting the state's challenges in the future. End Summary.

Political Landscape Leaves Problems Festering...

¶2. (SBU) Political power in the state is equally divided between the three leading Mexican political parties with the left-leaning Democratic Revolutionary Party (PRD) enjoying a small plurality in the state legislature (14 of 40 seats), President Calderon's own National Action Party (PAN) close behind with 12 seats, and the nationally re-ascendant Institutional Revolutionary Party (PRI) controlling 10 seats. Smaller parties -- Convergence, the Green Party of Mexico (PVEM), the Workers' Party of Mexico (PT), and the New Alliance (PANAL) -- are bit players with their one seat each not enough to give them any real bargaining power. The mayor of the capital city, Morelia, is Fausto Vallejo Figueroa, from the PRI. The distribution of political power puts a premium on consensus-building and coalition politics but PRD Governor Leonel Godoy has been unable to forge any effective cross-party alliances. More often than not personal rivalries and corruption have led to a political stalemate reflected in the local government's inability to address serious problems. Local elections will take place in November 2011 for the governor, state legislature, and municipalities.

¶3. (SBU) The balance among Mexico's three leading parties stems from several factors. PRD State President Fabiola Alanis attributed PRD's traditional strength in Michoacan to

the fact that the party was founded there and maintains an effective and organized presence throughout the state. Had it not been for the May 26 arrests by federal agents of 28 high ranking officials on narcotics charges (reftel), the majority of whom were from the PRD, Alanis maintained PRD would have even won two more districts. Meanwhile PAN's influence has been boosted by President Felipe Calderon's status as a native of Michoacan and the corresponding resources from the federal government that flow through national programs and help raise the PAN's local visibility. Even though the PRI won big in the midterm elections nationally and in other states, it did not win any seats assigned to Michoacan in the Federal Chamber of Deputies. Instead, the elections produced an identical distribution of seats with PRD securing eight and PAN winning the remaining four.

14. (SBU) As is the case in Mexican politics at the national level, the differences between the parties is less an issue of ideological divide, and more a result of local personalities and party organization. Green Party State Congressman Arturo Guzman explained that the PRD emphasizes grass roots movements, whereas the PAN is more traditional in its approach regarding the importance of consensus building. Officials told Poloff that the PRI is known for its chameleon-like behavior and often forms alliances with the PAN in the state. Representatives from local human rights NGOs complain that the PAN operates much like the PRI in terms of clientelism and believe the state will need a new generation of leaders willing to work together to confront the problems of the state.

And Complicates Economic Development...

15. Godoy and his advisors in the state government repeatedly

MEXICO 00002749 002.2 OF 003

stressed their commitment to improve the economy notwithstanding political obstacles. Erick Lopez, Coordinator for Development and Planning, told Poloff that the government's first priority is to increase production and exports of fruits and vegetables in rural areas, taking steps as appropriate to improve infrastructure. Officials told Poloff that Michoacan already harvests more fruit than any other part of the country. The government's second priority, according to Lopez, is to consolidate and expand Michoacan's tourism industry, which has taken a hit due to economic and security crises in the state. He said the third priority is the continued development of the port of Lazaro Cardenas, which is the largest port in the country and has not/not been affected by the worsening security environment. This includes business expansion, railroad investment, and highway development.

16. Migration to the U.S. is another challenge for Michoacan. The local Secretary of Economic Development estimates that 2.5 million people from Michoacan already live in the U.S. with most migrants hailing from the countryside. State Secretary of Government Fidel Calderon told Poloff that the governor wanted to target marginalized rural populations for assistance and development, which could potentially help stem the flow of young, able men to the U.S. To this end, the governor reportedly has increased the budget for programs in the countryside by 138 percent over the previous administration. It is not clear what impact this increase will make as the money still is being allocated.

17. (SBU) Calderon complained about the lack of a stable funding base for the state, a weakness stemming in part from an institutional problem in Mexico's federal structure. Only 20 percent of federal taxes are returned to the states and of that 20 percent, only 20 percent go to the municipalities. The states have very few sources of independent funding, deepening its reliance on flows from the federal government.

Remittances from the U.S. boost the local economy but are unpredictable and closely tied to U.S. economic conditions. Michoacan led all Mexican states with nearly USD 2.5 billion in remittances in 2006 but recipients generally use these funds for basic necessities. Both PAN and PRD leaders stressed the importance of greater investment in the state in order to ease the historic overreliance on remittances.

18. PRD Secretary of Economic Development Ruiz thought NAFTA-generated investment from the U.S. was the best way to cut through existing red tape. He believes that the best way to increase investment and economic development in the state is to promote the Lazaro Cardenas--Kansas City Railway Corridor facilitating the transport of containers from the Far East to the U.S. by way of Mexico. PAN State Congressman Sergio Solis lamented the low industrialization rate in the state, attributing it to historical factors and the current economic recession. He opined that the ejido system (agricultural land that the federal government expropriated from large private holdings during the Mexican Revolution and redistributed to communal farms) makes the purchase and sale of property difficult, seriously limiting new investment. University of Michoacan Professor Benjamin Revuelta told Poloff that what Mexico really needs is a program of assistance from the U.S. on the scale of European Union aid to its poorer members.

As Does Security Spending

19. (SBU) We heard a consensus among state administration officials on the need for the state to forge economic solutions to the security crises confronting Michoacan. State Secretary Calderon maintained that jobs and education would contribute more long-term to the state's overall security than funds dedicated exclusively to security measures. PRD Party Secretary Alanis complained that the six million pesos a day spent on the military mobilization of 10,000 troops in Michoacan were draining resources from important social programs. She further asserted that human rights complaints had increased six fold over the last two years due to the mobilization.

110. (SBU) Local human rights NGOs echoed the charges, recounting numerous human rights violations by the military in the countryside, including collateral killings,

MEXICO 00002749 003.2 OF 003

unauthorized entry, arbitrary detention, torture, rape, and robbery. They cited the case of people attending a church service in Apatzingan, whom soldiers held for hours while they searched for a suspect. They also maintained that federal forces seemed disproportionately focused on going after Michoacan's principal cartel, La Familia, as opposed to the Zetas. Some even offered La Familia praise for providing many benefits to rural communities but conceded that it would be better if the cartel did not exist. While the State Human Rights Commission President Victor Manuel Serrato faulted the military for failings, he said that the situation had improved over recent months as the military became sensitive to its human rights record. The primary problem, he said, was that the military lacked good intelligence. He also opined that authorities should be combating kidnapping and extortion, at least as much as narcotrafficking, as they are more serious crimes in his view and have become more prevalent in Michoacan.

111. (SBU) Notwithstanding disagreement between state and federal officials on security matters, local officials remain committed to strengthening their security apparatus. On July 21, the state passed a new public security law to improve the professionalization of prosecutors and police. State Secretary of Security Minerva Bautista said that the new law would be implemented in the next five to six months to strengthen entry requirements, increase police vetting

including regular polygraphs, provide regular human rights training, and implement programs in human development including physical and mental health. She also mentioned that the state was improving intelligence gathering and coordination, including with other states and citizen participation. Officials at the State Prosecutor's Office (PGJ), however, told Poloff that Michoacan had a long way to go before implementing the 2008 judicial reforms signaling a preference to see oral trials piloted first at the federal level.

State and Local Corruption: Look the Other Way

¶12. (SBU) Local government officials did not see any inconsistency between the May arrest of ten local mayors by federal authorities and their call for more cooperation and transparency between federal and local law enforcement efforts. State Secretary of Government Calderon complained that the federal government should have demonstrated greater respect for the state's autonomy by sharing more information about its operation with local authorities. Calderon registered a similar complaint about the arrests of leading members of La Familia cartel, suggesting state officials needed information in advance to guard against possible retaliation. State officials did not comment on well-known concerns from federal authorities that sensitive information shared with local officials would leak to the subjects of their operations. At the same time, however, recent charges against the governor's brother for his alleged involvement in narcotics trafficking is fostering rumors from the political opposition that the governor himself may be involved in wrong-doing.

Comment: Only One Way Forward

¶13. (SBU) Michoacan faces a well-known Mexican trifecta that stems from serious economic, security and migration problems that are inseparable. New private investment, better sharing of tax revenues with the Federal government and a decrease in corruption would help stabilize Michoacan's economy and reduce its overreliance on unpredictable federal government handouts and remittances from abroad. But for now, political disfunctionality and increased spending on security is undermining the creation of a business climate that could support economic growth and greater job prospects. Only greater coordination and cooperation among the state's political parties and between state and federal forces will allow the kind of comprehensive approach that is needed to address Michoacan's serious problems.
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